

**TENNESSEE DEPARTMENT OF REVENUE
LETTER RULING #00-11**

WARNING

Letter rulings are binding on the Department only with respect to the individual taxpayer being addressed in the ruling. This presentation of the ruling in a redacted form is informational only. Rulings are made in response to particular facts presented and are not intended necessarily as statements of Department policy.

SUBJECT

The effective date of Sections 3 and 4 of Public Chapter 406 of the Public Acts of 1999 to a Limited Partnership.

SCOPE

This letter ruling is an interpretation and application of the tax law as it relates to a specific set of existing facts furnished to the department by the taxpayer. The rulings herein are binding upon the Department and are applicable only to the individual taxpayer being addressed.

This letter ruling may be revoked or modified by the Commissioner at any time.

Such revocation or modification shall be effective retroactively unless the following conditions are met, in which case the revocation shall be prospective only:

- (A) The taxpayer must not have misstated or omitted material facts involved in the transaction;
- (B) Facts that develop later must not be materially different from the facts upon which the ruling was based;
- (C) The applicable law must not have been changed or amended;
- (D) The ruling must have been issued originally with respect to a prospective or proposed transaction; and
- (E) The taxpayer directly involved must have acted in good faith in relying upon the ruling; and a revocation of the ruling must inure to the taxpayer's detriment.

FACTS

[TAXPAYER] is a [STATE OTHER THAN TENNESSEE] limited partnership and is a 99% partner in a general partnership doing business in Tennessee. The general partner of [TAXPAYER] is [COMPANY A] with [OVER 1%] general partnership interest, and [TAXPAYER]'s sole limited partner is [COMPANY B] with [LESS THAN 99%] limited partnership interest. Both partners are wholly owned subsidiaries of [COMPANY C],

which is the indirect wholly owned subsidiary of [COMPANY D]¹. All of the entities mentioned are calendar year taxpayers.

[TAXPAYER] was qualified to do business in Tennessee [PRIOR TO JANUARY 1, 1998]. On the same day that [TAXPAYER] was qualified to do business in Tennessee, [COMPANY B] (the sole limited partner) and [COMPANY C] (the common parent of both partners) both withdrew their qualifications to do business in Tennessee. The withdrawals were brought about because both corporations, [COMPANY B] and [COMPANY C] had earlier in the year ceased doing business in Tennessee and contributed their Tennessee business operations to [TAXPAYER]. None of the direct or indirect shareholders of [COMPANY C] have any contact whatsoever with Tennessee.

QUESTION

With regard to [TAXPAYER], under the facts provided, will Sections 3 and 4 of Public Chapter 406 of the Public Acts of 1999 apply to tax years ending on or after June 30, 1999 or to tax years beginning on or after July 1, 1999?

RULING

Sections 3 and 4 of Public Chapter 406 of the Public Acts of 1999 will apply to [TAXPAYER]'s tax years beginning on or after July 1, 1999.

ANALYSIS

Section 19 of Public Chapter 406 of the Public Acts of 1999, provides as follows:

- (a) This act shall take effect upon becoming law for the sole purpose of promulgating regulations and forms, the public welfare requiring it.
- (b) The provisions of Section 3 relative to excise tax and Section 4 relative to franchise tax shall take effect upon becoming law; and for limited liability companies, limited liability partnerships and limited partnerships, in which one or more corporations subject to franchise, excise taxes under prior law directly or indirectly have in the aggregate an eighty percent (80%) or more ownership interest at any time after June 30, 1998, Sections 3 and 4 shall apply to tax years ending on or after June 30, 1999; but for all other taxpayers Sections 3 and 4 shall apply to tax years beginning on or after July 1, 1999; the public welfare requiring it.

Based on the language in Section 19, for limited liability companies, limited liability partnerships and limited partnerships, Sections 3 and 4 of Public Chapter 406 of the Public Acts of 1999 is applicable to tax years beginning on or after July 1, 1999, unless one or more corporations subject to franchise, excise taxes under prior law directly or indirectly had an 80% or more ownership interest in them any time after June 30, 1998.

¹ See attached chart.

While it is true that prior to [DATE PRIOR TO JANUARY 1, 1998] [COMPANY B] held a greater than 80% ownership interest in [TAXPAYER], it is also true that [COMPANY B] was no longer subject to Tennessee taxation subsequent to [THE DATE OF WITHDRAWAL PRIOR TO JANUARY 1, 1998]. To the contrary, [COMPANY B] had withdrawn its qualification to do business [PRIOR TO JANUARY 1, 1998] and contributed its Tennessee business operations to [TAXPAYER]. Once it had withdrawn its qualification and ceased doing business in Tennessee, [COMPANY B] was not subject to Tennessee taxation. It follows that since there was not a corporation subject to Tennessee's franchise, excise taxes under prior law that directly or indirectly had in the aggregate an eighty percent (80%) or more ownership interest at any time after June 30, 1998, that Sections 3 and 4 of Public Chapter 406 of the Public Acts of 1999 shall apply to [TAXPAYER]'s tax years beginning on or after July 1, 1999.

Steven B. McCloud
Tax Counsel

APPROVED: Ruth E. Johnson
Commissioner

DATE: 4/12/00